Power Corporation of Canada, Limited

Fiftieth Annual Report 1974

Power Corporation of Canada, Limited/Annual Report 1974

Financial Highlights

For the year ended December 31	1974	1973 *restated*	1972 *restated*
Gross revenue from operations	**$223,492,000**	$242,767,000	$170,002,000
Consolidated earnings before extraordinary credits (charges)	**$ 37,847,000**	$ 30,959,000	$ 18,562,000
Extraordinary credits (charges)	**$ 7,328,000**	$ (1,260,000)	$ (2,477,000)
Consolidated earnings after extraordinary credits (charges)	**$ 45,175,000**	$ 29,699,000	$ 16,085,000
Non-participating preferred dividends	**$ 3,725,000**	$ 3,781,000	$ 3,827,000
Net earnings	**$ 41,450,000**	$ 25,918,000	$ 12,258,000
Provision for depreciation	**$ 11,634,000**	$ 11,893,000	$ 12,442,000
Cash flow from operations	**$ 27,080,000**	$ 27,218,000	$ 19,159,000
Earnings per 6% participating preferred and common share before extraordinary credits (charges)			
Primary	**$ 2.88**	$ 2.29	$ 1.29
Diluted	**$ 2.29**	$ 1.85	$ 1.09
Earnings per 6% participating preferred and common share after extraordinary credits (charges)			
Primary	**$ 3.49**	$ 2.18	$ 1.07
Diluted	**$ 2.75**	$ 1.78	$ 0.93
As at December 31			
Working capital	**$ 32,267,000**	$ 43,627,000	$ 16,617,000
Investments	**$288,533,000**	$255,684,000	$247,716,000
Fixed assets—net	**$116,520,000**	$114,303,000	$125,036,000
Long-term debt	**$ 58,211,000**	$ 65,799,000	$ 73,557,000

Directors' Report to Shareholders

Your Company was incorporated on April 18, 1925 and, thus, your Directors are pleased to submit the Company's 50th Annual Report, together with the consolidated financial statements for the year ended December 31, 1974. It is appropriate that in its 50th anniversary year, your Company should report the highest earnings ever attained in its history.

The consolidated earnings for the year ended December 31, 1974 amount to $37,847,000, compared with $30,959,000 (restated) for the prior year, in each case before non-participating preferred dividends and extraordinary items. After payment of the dividends referred to above, this is equal to $2.88 per participating preferred and common share, compared with $2.29 in 1973. The fully diluted earnings per share, after allowing for the conversion of the 5% convertible preferred shares, but before extraordinary items, are $2.29 compared with $1.85 in 1973. In addition, extraordinary items amount to a gain of $7,328,000 in respect of the year 1974, equivalent to 61 cents per share and, on a diluted basis, 46 cents per share, compared with a charge of $1,260,000 in the previous year. The extraordinary items in 1974 include the net gain on disposals of certain assets of our wholly-owned subsidiary companies, together with the Company's share of extraordinary items of unconsolidated subsidiary and affiliated companies, the major portion of which was the share of the gain on disposals of certain assets of Consolidated-Bathurst Limited.

Dividends of 37½ cents per participating preferred and common share were paid during the year. The current quarterly dividend, increased from 7½ cents to 10 cents per common share on April 26, 1974, is equivalent to a rate of 40 cents per annum.

The overall operating results of The Investors Group and Laurentide Financial Corporation Ltd. were satisfactory in the light of the high interest rates that prevailed during the year as well as the increased cost of doing business.

The continuing labour difficulties which occurred in the operations of Canada Steamship Lines, Limited and of some of its major customers had a serious effect on the earnings of that company. In particular, a strike by the mates and operating engineers held up the Water Transportation operations for a period of eight weeks at the height of the shipping season, and the grant of cost of living increases over and above the provisions of the labour contracts in force have affected the earnings of its shipyard operations. Illegal strike action in various industrial sectors related to other transportation operations also had an adverse effect on earnings.

Consolidated-Bathurst Limited, whose accounts are consolidated on an equity accounting basis, had a most satisfactory year due to the continued strong demand for its products.

The newspapers owned by Gesca Ltée showed improved earnings.

During the course of the year, your Company made minor additional investments in certain of its subsidiary companies, and acquired a direct controlling interest in S.M.A. (Société de Mathématiques Appliquées) Inc., a computer services firm.

The percentage ownership of the shares of Consolidated-Bathurst Limited by your Company was reduced during the latter part of the year as a result of the issue by Consolidated-Bathurst Limited of 930,385 common shares in exchange for 1,860,770 shares of The Price Company Limited. This transaction occurred as part of Consolidated-Bathurst's plan in making its takeover bid for Price. Subsequent to the bid by Consolidated-Bathurst, a counter-bid was made by Abitibi Paper Company Limited, substantially in excess of Consolidated-Bathurst's offer and it was, therefore, decided to deposit the Price shares and apply the proceeds of some $24.4 million to the reduction of Consolidated-Bathurst's bank loans.

During the year your Company acquired preferred shares of Canada Steamship Lines, Limited and of Trans-Canada Corporation Fund; it now owns 69% of the outstanding preferred shares of Canada Steamship Lines, Limited as well as over 90% of the outstanding preferred shares of Trans-Canada Corporation Fund. The Company already owns directly or indirectly all the common shares of these two companies.

This Annual Report includes condensed versions of the Report of the Directors to Shareholders of each of your Company's major subsidiary and affiliated companies, together with condensed income statements and balance sheets for the last three years.

On March 25, 1975 your Company announced that it is offering to acquire all the Class C participating non-voting preference shares and all the common shares of Argus Corporation Limited at a price of $17 per share for the Class C participating non-voting preference shares and $22 per share for the common shares.

The offer, unless your Directors determine otherwise, will only be binding upon the Company if accepted by the holders of 80% of each class of shares. The acquisition of this major holding company, with substantial holdings in diversified industrial and other companies, would be a further step in broadening your Company's asset base and potential earnings.

The Directors wish to express their appreciation of the services rendered by the Officers and Staff during the year.

On behalf of the Board

President and Chief Operating Officer

Chairman and Chief Executive Officer

Montreal, Quebec, April 2, 1975.

Consolidated Balance Sheet

As at December 31

ASSETS	1974	1973 *restated*
CURRENT ASSETS		
Cash	$ **3,621,000**	$ 3,195,000
Short-term notes and bonds—at cost, which approximates market value	**39,298,000**	43,695,000
Short-term notes—unconsolidated subsidiaries		16,350,000
Accounts receivable	**29,867,000**	20,731,000
Inventories *(note 2)*	**16,135,000**	6,034,000
Prepaid expenses	**1,114,000**	936,000
	90,035,000	90,941,000
INVESTMENTS		
Subsidiary and affiliated companies at equity *(notes 1 and 3)*	**266,343,000**	234,047,000
Other securities *(note 4)*	**19,183,000**	19,281,000
Advances to trustees of share purchase plans	**3,007,000**	2,356,000
	288,533,000	255,684,000
FIXED ASSETS—AT COST *(note 5)*	**251,227,000**	244,551,000
Less: accumulated depreciation	**134,707,000**	130,248,000
	116,520,000	114,303,000
	$495,088,000	$460,928,000

On behalf of the Board

PAUL DESMARAIS PETER D. CURRY

LIABILITIES	1974	1973 *restated*
CURRENT LIABILITIES		
Accounts payable and accrued charges	**$ 33,861,000**	$ 25,734,000
Progress payments and billings in excess of costs incurred on uncompleted contracts	**12,060,000**	11,086,000
Income taxes payable	**3,448,000**	2,760,000
Current portion of long-term debt	**8,399,000**	7,734,000
	57,768,000	47,314,000
LONG-TERM DEBT *(note 6)*	**58,211,000**	65,799,000
DEFERRED INCOME TAXES	**36,567,000**	36,679,000
PROVISIONS		
Insurance losses, repairs and claims	**2,027,000**	1,906,000
Deferred compensation	**1,190,000**	1,239,000
Deferred income	**2,559,000**	2,866,000
	5,776,000	6,011,000
PREFERRED SHARES OF CONSOLIDATED SUBSIDIARIES	**4,077,000**	8,756,000
SHAREHOLDERS' EQUITY		
Capital stock-preferred *(note 7)*	**82,415,000**	83,779,000
Capital stock-common *(note 7)*	**58,449,000**	58,337,000
Retained earnings	**191,825,000**	154,253,000
	332,689,000	296,369,000
	$495,088,000	$460,928,000

Statement of Consolidated Earnings

For the Year ended December 31

	1974	1973 *restated*
Gross revenue from operations *(note 5)*	**$223,492,000**	$242,767,000
Earnings from operations	**$ 26,997,000**	$ 32,001,000
Share of earnings of subsidiary and affiliated companies *(note 3)*	**28,040,000**	18,017,000
Income from investments	**4,684,000**	3,920,000
	59,721,000	53,938,000
Interest on long-term debt	**6,605,000**	6,290,000
Provision for depreciation	**11,634,000**	11,893,000
Provision for income taxes	**3,353,000**	4,352,000
Preferred dividends of consolidated subsidiaries	**282,000**	444,000
	21,874,000	22,979,000
	37,847,000	30,959,000
Non-participating preferred dividends *(note 7)*	**3,725,000**	3,781,000
Net earnings before undernoted items	**34,122,000**	27,178,000
Extraordinary credits (charges) *(note 8)*	**7,328,000**	(1,260,000)
Net earnings	**$ 41,450,000**	$ 25,918,000

Earnings per 6% participating preferred and common share

	1974 Primary	1974 Diluted	1973 Primary	1973 Diluted
Before extraordinary credits (charges)	**$2.88**	**$2.29**	$2.29	$1.85
After extraordinary credits (charges)	**$3.49**	**$2.75**	$2.18	$1.78

Statement of Consolidated Retained Earnings

For the Year ended December 31

	1974	1973 *restated*
Retained earnings beginning of year	**$154,253,000**	$129,407,000
Add:		
Net earnings	**41,450,000**	25,918,000
Gain on 4¾% preferred shares purchased for cancellation	**489,000**	346,000
Gain on purchases of preferred shares of consolidated subsidiaries	**952,000**	
Contributed surplus being excess of amount received over par value of 6% participating preferred shares issued		1,319,000
	197,144,000	156,990,000
Deduct:		
Dividends		
Participating preferred shares	**521,000**	404,000
Common shares	**3,930,000**	2,317,000
Share of net charges to retained earnings of subsidiary and affiliated companies *(note 3)*	**868,000**	16,000
	5,319,000	2,737,000
Retained earnings end of year	**$191,825,000**	$154,253,000

Statement of Changes in Consolidated Financial Position

For the Year ended December 31

	1974	1973 *restated*
SOURCE OF FUNDS		
From operations		
Net earnings	**$ 41,450,000**	$ 25,918,000
Non cash charges (credits)		
Provision for depreciation	**11,634,000**	11,893,000
Deferred income taxes	**(385,000)**	2,420,000
Earnings not received in cash including extraordinary items	**(25,619,000)**	(13,013,000)
	27,080,000	27,218,000
Proceeds from disposal of fixed assets	**3,949,000**	12,826,000
Proceeds from disposal of investments	**1,230,000**	34,665,000
Proceeds from issue of common shares		1,869,000
Proceeds from issue of 6% non-cumulative preferred shares		2,198,000
	32,259,000	78,776,000
USE OF FUNDS		
Additions to fixed assets	**15,070,000**	8,230,000
Reduction of long-term debt (net)	**7,588,000**	7,758,000
Dividends—common	**3,930,000**	2,317,000
—participating preferred	**521,000**	404,000
Purchase of investments	**10,304,000**	29,564,000
Acquisition of preferred shares of consolidated subsidiaries	**3,727,000**	114,000
Acquisition of 4¾% preferred shares for cancellation	**763,000**	604,000
Increase in advances to trustees of share purchase plans	**651,000**	1,745,000
Miscellaneous	**1,065,000**	1,030,000
	43,619,000	51,766,000
(DECREASE) INCREASE IN WORKING CAPITAL	**$(11,360,000)**	$ 27,010,000

Note 1. Principles of Consolidation and Presentation

The consolidated financial statements include the accounts of Power Corporation of Canada, Limited and its wholly-owned subsidiary companies accounted for on the purchase basis and its other subsidiary and affiliated companies accounted for on the equity basis.

A full consolidation of the financial statements of Power Corporation and its subsidiary companies has not been prepared as such statements would not present fairly the financial position of the Company. Summaries of the financial statements of the major subsidiary and affiliated companies are presented on pages 13 to 25 of this Report.

It is the policy of the Company not to amortize the difference between the cost of investment in companies accounted for on the equity basis and the book value of the underlying net assets at the dates of acquisition.

Gains on capital asset transactions have been included as extraordinary items in the statement of consolidated earnings in 1974 rather than in the statement of consolidated retained earnings. The 1973 figures have been restated to reflect this change and in addition certain reclassifications have been made to conform with the presentation adopted in 1974.

Note 2. Inventories

	Thousands			
		1974		1973
Shipyard work-in-progress at cost less allowance for loss on uncompleted contracts (1974—nil; 1973—$1,675,000)		**$58,175**		$33,876
Progress payments and billings on uncompleted shipyard work	**$60,809**		$42,396	
Less: Progress payments and billings in excess of costs incurred on uncompleted contracts included in current liabilities	**12,060**	**48,749**	11,086	31,310
		9,426		2,566
Inventories of stores and supplies at the lower of cost and replacement cost		**6,709**		3,468
		$16,135		$ 6,034

Note 3. Subsidiary and Affiliated Companies at Equity

	Subsidiaries				*Affiliates*		
	Laurentide Financial Corporation Ltd.	*The Imperial Life Assurance Company of Canada*	*The Investors Group*	*Other*	*Consolidated-Bathurst Limited*	*Gesca Ltée*	*Total*
Voting shares	57.9%	51.2%	56.5%(a)	n/a	38.1%	n/a	n/a
Equity interest	57.9%	51.2%	34.0%	n/a	38.1%	100%	n/a
	Thousands						
Carrying value:							
December 31, 1973	$27,896	$19,413	$55,464	$2,933	$100,952(c)	$27,389	$234,047
Purchases	1,450		1,698	3,986(b)	1,222	816	9,172
Share of earnings	1,317	458	4,884	(1,467)	19,470	3,378	28,040
Extraordinary items			48	(113)	6,244	(478)	5,701
Share of credit (charges) to retained earnings	106		(835)			(139)	(868)
Dividends received	(1,096)	(359)	(2,124)		(6,170)		(9,749)
December 31, 1974	$29,673	$19,512	$59,135	$5,339	$121,718(c)	$30,966(d)	$266,343
Share of equity December 31, 1974	$24,030	$ 7,700	$37,934	$1,612	$ 81,751	$18,787	$171,814

(a) The Great-West Life Assurance Company (a subsidiary of The Investors Group) and The Imperial Life Assurance Company of Canada own in total an additional 22.7%.

(b) Includes investment in and advances to S.M.A. (Société de Mathématiques Appliquées) Inc..

(c) Includes debentures of $990,000.

(d) Includes advances of $4,395,000.

The share of earnings includes $3,195,000 share of earnings derived from The Imperial Life Assurance Company of Canada and The Great-West Life Assurance Company (a subsidiary of The Investors Group) whose financial statements have been prepared on the basis of requirements of the Department of Insurance of Canada.

Note 4. Other Securities

	Thousands 1974	1973
Argus Corporation Limited		
Common shares (market value $2,369,000; 1973—$3,510,000)	**$ 3,634**	$ 3,634
6% general mortgage bonds due December 31, 1976—1981 at cost and accrued interest	**8,990**	8,555
Non-interest bearing debentures received for franchises, motor coaches and equipment sold in prior years, payable in amounts related to the cash flow of the issuing companies in instalments to 1982	**4,348**	4,348
Miscellaneous investments	**2,211**	2,744
	$19,183	$19,281

Note 5. Fixed Assets and Gross Revenue

Major classifications by industry of fixed assets and gross revenue are as follows:

	Fixed Assets — Cost 1974	Fixed Assets — Net Book Value 1974	Fixed Assets — Net Book Value 1973	Gross Revenue 1974	Gross Revenue 1973
	Thousands				
Water Transportation	**$152,135**	**$ 73,073**	$ 74,647	**$ 49,320**	$ 45,557
Shipbuilding	**31,701**	**11,941**	11,482	**64,728**	102,042
Land transportation	**55,442**	**26,318**	24,923	**102,616**	88,750
Other	**11,949**	**5,188**	3,251	**6,828**	6,418
	$251,227	**$116,520**	$114,303	**$223,492**	$242,767

Vessels are depreciated on a straight line basis on estimated useful lives of from 20 to 25 years. Land transportation revenue equipment is depreciated on estimated useful life of from 5 to 10 years. The majority of the remaining assets are depreciated at the maximum rates permitted for income tax purposes.

Note 6. Long-Term Debt

	Thousands 1974	1973
Parent Company		
5½% debentures maturing March 1, 1977	**$ 3,990**	$ 4,261
Wholly-owned subsidiaries		
Term bank loans, repayable $5,000,000 annually from 1975 to 1978 and $20,000,000 on December 1, 1979 bearing interest at the prime rate plus 1% and secured by certain investments	**40,000**	45,000
Equipment trust certificates, at various rates from 6½% to 10% maturing April 1, 1975 to May 1, 1982	**5,930**	7,270
7% sinking fund bonds and debentures maturing November 15, 1975 and April 1, 1976	**2,207**	2,542
6½% sinking fund debentures maturing December 15, 1979, repayable $200,000 annually	**3,000**	3,200
6½% redeemable secured debentures, with sinking fund, maturing June 1, 1980, repayable $300,000 annually	**7,774**	8,460
Note at the prime rate plus 1% due November 1, 1978, repayable $225,000 semi-annually	**1,750**	2,200
First mortgage loans at 11% and 11¾% maturing October 1, 1984 and February 1, 1985, repayable in monthly instalments	**1,731**	
Other	**228**	600
	66,610	73,533
Deduct: Instalments due within one year	**8,399**	7,734
	$58,211	$65,799

Instalments due on long-term debt over the next five years are as follows:
1976—$7,670,000; 1977—$11,075,000; 1978—$6,800,000; 1979—$23,121,000; 1980—$7,285,000.

Note 7. Capital Stock

	Thousands 1974	1973
First preferred shares of $50 par value issuable in series		
Authorized—1,920,630 shares		
Issued — 520,630 shares 4¾% cumulative redeemable 1965 series (i)	**$26,031**	$27,283
Second preferred shares of $12 par value issuable in series		
Authorized—10,000,000 shares		
Issued — 4,119,480 shares 5% cumulative redeemable convertible series "A" (ii)	**49,434**	49,546
Six per cent non-cumulative participating preferred shares of $5 par value		
Authorized—1,592,760 shares		
Issued —1,389,904 shares (iii)	**6,950**	6,950
	$82,415	$83,779
Common shares of no par value		
Authorized—30,000,000 shares		
Issued —10,485,853 shares (iv)	**$58,449**	$58,337

(i) redeemable on or before July 15, 1977, at $51.00; thereafter at $50.50 and in each case plus accrued and unpaid dividends. During the year 25,030 shares were redeemed and cancelled.

(ii) redeemable at $12 plus accrued and unpaid dividends; convertible on or before May 31, 1978. During the year 9,380 shares were converted into common shares.

(iii) 607,578 of the issued participating preferred shares have non-detachable warrants attached entitling the holder to subscribe for one additional participating preferred share in respect of each three such shares presently held at a subscription price of $15 per share up to May 31, 1978.

202,526 participating preferred shares are reserved for the exercise of the non-detachable warrants attached to the participating preferred shares.

(iv) Pursuant to a Stock Purchase Plan dated as of February 18, 1974, Trustees have purchased, on the open market with moneys furnished by the Company, 88,000 common shares of the Company at an average cost of $12.26 per share to be held for the benefit of certain senior employees (63,000 common shares for the benefit of 3 Officers and Directors of the Company) to whom the rights to purchase the same have been granted. Such rights to purchase common shares are exercisable up to December 31, 1977 at a purchase price, per share, equal to the said average cost to the Trustees. The common shares will be held by the Trustees until payment therefor.

Pursuant to a Stock Purchase Plan dated as of February 18, 1975 certain senior employees have been granted rights to purchase an aggregate of 32,500 common shares of the Company at a price of $8.10 per share (20,000 common shares in respect of a Director of the Company). The rights to purchase common shares are exercisable up to December 31, 1975. Upon exercise of any such rights, common shares will be issued from treasury, with moneys furnished by the Company, to be held by Trustees until payment therefor.

(v) Non-participating preferred dividends paid were as follows:

	1974	1973
4¾% first preferred shares 1965 series	**$1,250,000**	$1,303,000
5% second preferred shares series "A"	**2,475,000**	2,478,000
	$3,725,000	$3,781,000

Note 8. Extraordinary Credits (Charges)

	Thousands 1974	1973
Extraordinary credits (charges) consist of:		
Gain (loss) on capital asset transactions, net of income taxes	**$ 1,627**	$ (1,118)
Company's share of extraordinary items of unconsolidated subsidiary and affiliated companies	**5,701**	(142)
	$ 7,328	$ (1,260)

Note 9. Contingent Asset

On March 30, 1973 the Company entered into an agreement to sell the shares of Dominion Glass Company Limited, held by a wholly-owned subsidiary, to Consolidated-Bathurst Limited for a maximum price of $21,749,000, of which $17,671,000 was paid in cash. The balance, which is not to exceed $4,078,000, will be determined on the basis of a formula related to the earnings of Dominion Glass Company Limited for the three fiscal years ending December 31, 1976 and will be payable on or before June 30, 1977.

Note 10. Commitments

(a) A subsidiary company entered into an agreement on November 29, 1972 to purchase the shares of Strickland Transportation Company, Inc. for U.S. $14,000,000 and certain assets leased by Strickland Transportation Company, Inc. for U.S. $4,400,000. This agreement terminated on February 8, 1975. $1,525,000 par value of Government of Canada Bonds were pledged as security for performance by the company under this agreement and the company has requested the escrow agent to return the bonds.

(b) Subsidiary companies charter vessels, and lease terminals, trucks and buses under long-term agreements with subsidiary and other companies. Aggregate minimum rentals under these charter hire agreements and leases totalling $56,113,000 are as follows for each of the periods shown:
1975—$5,316,000; 1976-1980—$24,336,000; 1981-1985—$16,369,000; 1986-1990—$7,113,000;
after 1990—$2,979,000.

Note 11. Remuneration of Directors and Officers

The remuneration received by Directors and Officers during the year ended December 31, 1974 was as follows:

	as Directors		*as Officers*	
from:	Number	Amount	Number	Amount
Power Corporation of Canada, Limited	18*	$136,400	7	$460,300
from subsidiaries:				
Canada Steamship Lines, Limited			2	235,600
Laurentide Financial Corporation Ltd.	6	25,300		
Union Acceptance Corporation Limited	6	8,700		
Elite Insurance Company	6	2,200		
The Imperial Life Assurance Company of Canada	2	8,200	1	6,000
The Investors Group	4	12,800	1	50,000
The Great-West Life Assurance Company	2	28,400		
Montreal Trust Company	3	11,200	1	90,000
S.M.A. (Société de Mathématiques Appliquées) Inc.	3	3,000		

* *Includes 5 Officers*

Note 12. Subsequent Event

The Company has announced that it proposes to make a cash offer for all the outstanding Class C participating non-voting preference shares at $17 per share and common shares at $22 per share of Argus Corporation Limited, subject to certain conditions. If all such shares are deposited under the terms of the offer, the total commitment will be approximately $149 million.

Auditors' Report

The Shareholders,
Power Corporation of Canada, Limited.

We have examined the consolidated balance sheet of Power Corporation of Canada, Limited as at December 31, 1974 and the consolidated statements of earnings, retained earnings, and of changes in financial position for the year then ended. For Power Corporation of Canada, Limited and those companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For the companies accounted for by the equity method, of which we are not the auditors, we have carried out such inquiries and examinations as we considered necessary in order to accept the reports of the other auditors.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated.

Montreal, Que. March 19, 1975,
except for Note 12 which is as of April 2, 1975.

TOUCHE ROSS & CO.
Chartered Accountants.

Condensed Report of the Directors to Shareholders

Gross Revenue

Gross revenue of Canada Steamship Lines, Limited and its wholly-owned operating companies was $223,492,000, as compared to $242,767,000 in 1973, reflecting the Shipbuilding Division's policy of reporting its vessel construction activity on a 'completed contract basis'.

Earnings

Earnings from operations declined to $29,316,000 from $33,508,000 in 1973 due to:

— strikes during the year by vessel crews, Canada grain inspectors and U.S. coal miners which severely affected water transportation operations, and resulted in a substantial reduction in earnings;

— strike settlements, involving cost-of-living adjustments (COLA), over and above the provisions of labour contracts in force, and other labour disruptions which affected the earnings from shipyard operations; and

— the inability to obtain rate increases sufficient to compensate for cost escalations, which adversely affected earnings from operations, of other major divisions of the Company.

Share of earnings of unconsolidated subsidiary and affiliated companies totalled $26,248,000 in 1974, up from $17,167,000 in the prior year. This increase is largely attributable to the substantial improvement in earnings realized by Consolidated-Bathurst Limited in 1974.

As a result of lower taxable income of the Company and its operating subsidiaries, the 1974 provision for income taxes is significantly below the 1973 amount.

Balance Sheet

Current assets at $89,318,000, including $38,955,000 in short-term notes and Government of Canada bonds, are in excess of current liabilities by $34,607,000. Working capital decreased by $5,929,000 during the year.

The carrying value of investments has increased from last year mainly as a result of recording share of earnings of unconsolidated subsidiary and affiliated companies.

Vessel additions in the year relate to progress payments on two maximum seaway size self-unloaders which are being constructed in the Company's shipyards and are scheduled for delivery in 1976 and 1977. Other major expenditures in the year included the addition by the Kingsway trucking system of a new terminal in Vancouver as well as the expansion of their existing terminal in Montreal.

Outlook

Excluding any major labour disruptions in both the Company's and its customers' operations, the prospects for 1975 for most of the Company's operations are promising.

Condensed Financial Statements

Condensed Income Statement	1974	1973	1972
Gross revenue from operations	**$223,492,000**	$242,767,000	$170,002,000
Earnings from operations, less provision for depreciation	**$ 17,682,000**	$ 21,615,000	$ 13,799,000
Income from investments, subsidiary and affiliated companies	**30,804,000**	20,318,000	8,964,000
	48,486,000	41,933,000	22,763,000
Interest on long-term debt	**13,473,000**	13,112,000	7,574,000
Income taxes	**765,000**	4,352,000	589,000
Minority interest and preferred dividends	**573,000**	562,000	562,000
	14,811,000	18,026,000	8,725,000
Net earnings before extraordinary items	**$ 33,675,000**	$ 23,907,000	$ 14,038,000

Condensed Balance Sheet			
Current assets	**$ 89,318,000**	$ 86,915,000	$ 48,325,000
Investments and other assets	**188,620,000**	162,603,000	161,371,000
Fixed assets	**116,520,000**	114,303,000	125,036,000
Total Assets	**$394,458,000**	$363,821,000	$334,732,000
Current liabilities	**$ 54,711,000**	$ 46,379,000	$ 31,716,000
Long-term debt	**128,871,000**	136,188,000	143,898,000
Provisions and deferred taxes	**42,343,000**	42,690,000	37,223,000
Minority interest and preferred equity	**12,005,000**	12,005,000	11,815,000
Common shareholder's equity	**156,528,000**	126,559,000	110,080,000
Total Liabilities	**$394,458,000**	$363,821,000	$334,732,000

Condensed Report of the Directors to Shareholders

1974 was a difficult year, beset as it was by domestic and world-wide economic uncertainties, rapid inflation and very high interest rates. In light of these conditions, the Company adopted a policy of limited growth. Consolidated finance receivables, net of unearned finance charges, grew by $26.3 million or 8%, and generated gross finance income of $58.3 million, up $9.4 million or 19.2% from last year.

Insurance premium and investment income rose substantially to $11 million from $8.5 million and net finance receivables of Norco, which are not consolidated in the financial statements, increased 76% to $38.3 million. Norco's gross income increased substantially.

In spite of these gains in revenue, net earnings were lower by $2.9 million or 43% than those of 1973, and amounted to $3.8 million. After providing for preferred share dividends, earnings per common share were 60¢ compared with $1.21 last year, calculated on a fully diluted basis.

The major adverse factor during the year was the unprecedented high cost of borrowed money. This averaged 9.3% per annum, and absorbed 46% of gross finance income compared with 7.3% last year, and which equalled 34% of gross finance income. Other factors exhibiting a negative influence upon earnings included the unprecedentedly high claims losses in the insurance subsidiary and the effect of inflation on operating expenses.

The 10% corporate surtax introduced in the federal budget last November increased income taxes by $213,000 and further reduced earnings per common share by 5¢.

Bank lines of credit available to the Company and its consolidated subsidiaries increased during the year by $23.5 million to $188.8 million, and short-term borrowings in the commercial paper market continued to be well covered by unused bank lines of credit.

Consumer Division

Consumer loan receivables increased by $7.9 million while sales finance contracts increased by $2.1 million. Gross receivables increased by 4.7% and produced gross income of $38.2 million which was 14.7% above that of 1973.

Industrial Division

Receivables of this division increased by over $19 million to approximately $118 million by year-end, producing gross income of $13 million, compared with $10 million a year ago, up 30%.

Real Estate and Mortgage Division

The Real Estate and Mortgage Division recorded an 8.5% growth in outstandings during the year but increased its gross income by 28% to a record $5.5 million.

Commercial Portfolio

Total receivables in the commercial portfolio remained constant at $23.5 million, reflecting the Company's policy of reduced activity in the commercial leasing field during periods of high money costs.

Elite Insurance Company

Gross written premiums were $14.6 million compared with $11.2 million in 1973. However, the insurance subsidiary, in common with others in its industry, was a victim of both inflation, in the form of expensive claims costs, and a higher incidence of claims. Thus, while insurance income was up 34%, claims and related expenses rose 81% and resulted in a net loss in this subsidiary.

North Continent Capital Ltd.

1974 was a year of good progress for Norco. Gross finance receivables increased by 64% from $25.9 million at December 31, 1973 to $42.6 million a year later. A small profit was again realized in 1974.

Outlook

Since year-end there have been dramatic reductions in the cost of short-term borrowings, both from banks and in the commercial paper market, accompanied by a modest reduction in long-term borrowing rates. The lower rates will have an immediate effect in reducing the Company's major item of expenditure, and to the extent that they continue at or near these levels will have a significant positive effect on operating margins. The outlook for the Canadian economy in 1975 is somewhat uncertain. There has been some lessening in consumer demand; however, demand for business credit, which is an important and growing part of the Company's business, remains firm.

Condensed Financial Statements

Condensed Income Statement	1974	1973 *restated*	1972 *restated*
Gross income	$ 69,317,000	$ 57,428,000	$ 51,284,000
Share of earnings of unconsolidated subsidiary	38,000	11,000	(130,000)
	69,355,000	57,439,000	51,154,000
Cost of borrowings	26,756,000	16,550,000	12,384,000
Provision for credit losses	3,621,000	3,494,000	2,594,000
Insurance claims and expenses	9,627,000	5,333,000	4,755,000
Operating expenses	21,181,000	19,275,000	18,237,000
Income taxes	4,154,000	5,797,000	6,063,000
Minority interest	262,000	373,000	305,000
	65,601,000	50,822,000	44,338,000
Net earnings	$ 3,754,000	$ 6,617,000	$ 6,816,000
Earnings per common share	$ 0.60	$ 1.29	$ 1.35
Dividends per common share	$ 0.50	$ 0.50	$ 0.50
Power Corporation's share of earnings	$ 1,317,000	$ 2,792,000	$ 2,860,000
Book value of Power's investment in Laurentide—year-end	$ 29,673,000	$ 27,896,000	$ 25,256,000

Condensed Balance Sheet			
Finance receivables—consumer	$236,076,000	$226,071,000	$192,852,000
—industrial, commercial and leases	132,056,000	116,782,000	84,603,000
—real estate and other	56,745,000	48,850,000	32,000,000
Less: unearned finance income and allowance for credit losses	75,701,000	69,013,000	50,969,000
Finance receivables—net	349,176,000	322,690,000	258,486,000
Other assets	48,931,000	39,082,000	44,482,000
Total Assets	$398,107,000	$361,772,000	$302,968,000
Short-term debt	$148,741,000	$136,395,000	$103,255,000
Long-term debt	154,933,000	132,069,000	116,307,000
Other liabilities	27,320,000	26,104,000	19,861,000
Minority interest and preferred equity	25,610,000	26,305,000	26,925,000
Common shareholders' equity	41,503,000	40,899,000	36,620,000
Total Liabilities	$398,107,000	$361,772,000	$302,968,000

IMPERIAL LIFE

Condensed Report of the Directors to Shareholders

New Business

The volume of new life insurance and annuity business in 1974 amounted to $962,135,000 which includes a new record of $636,651,000 on individual lives and $325,484,000 from group life insurance and annuities. New business on individual lives (including health insurance) produced yearly premiums of $10,830,000 and single premiums of $8,479,000. New group insurance produced premiums of $4,878,000.

Business in Force

The year ended with $4,963,307,000 of life insurance in force, including $1,924,031,000 of group life insurance and annuities. Health insurance contracts in force at the end of the year had yearly premiums of $12,692,000.

Income

Premium income amounted to $98,389,000 and net interest, dividends and rents to $38,763,000 after deduction of all investment expenses.

Benefit Payments

Payments to policyholders and beneficiaries during 1974 aggregated $63,000,000, including death claims amounting to $15,571,000 and $9,556,000 in dividends to holders of participating policies.

Assets

The book value of the assets of the Company and its subsidiary companies amounted to $654,244,000. The net rate of interest earned in 1974 was 7.16% before taxes on Canadian investment income (1973—6.93%).

Insurance and Annuity Liabilities

The total of the reserves for insurance and annuity liabilities, including reserves for segregated investment funds, is $492,942,000, which is greater than governmental requirements.

Medical Inns of Canada Limited

This company was incorporated in 1971 to operate a real estate facility consisting of medical and dental suites, a hospital unit, paramedical support services and hotel facilities for patients and guests. Equity in the form of common shares was provided 52.28% by Imperial Life and 47.72% by a group of doctors and in the form of shareholder loans in approximately the same proportion.

In mid-1974 it became apparent that the facilities were greatly under-utilized placing in question the basic operating concept. In addition, the doctors who were in the founding group were unable to obtain a private hospital license through the Ontario Ministry of Health. Various alternatives were explored without agreement or success.

On December 24, 1974, two minority shareholders filed a petition in bankruptcy against Medical Inns of Canada Limited in respect of their shareholder loans, which company on January 13, 1975 made a proposal under Part III of the Bankruptcy Act. This proposal was rejected at a meeting of creditors on January 31, 1975 resulting in bankruptcy. The Consolidated Financial Statements make full provision for the estimated decline in value of this investment.

Retained Earnings

The ratio of capital and retained earnings to total liabilities at December 31, 1974 was 9.1% (1973—10.5%).

Earnings per Share

Consolidated statutory earnings per share are based on the net revenue (including net realized capital gains) of the shareholders' account, of the non-participating life insurance business, of the health insurance business and the appropriate portion of the net revenue of subsidiary companies. These earnings may fluctuate widely as they are greatly influenced by the rates of mortality and morbidity and by the level of net realized capital gains. The consolidated statutory earnings per share amounted to $4.47 compared to $6.01 in 1973.

Condensed Financial Statements

Condensed Income Statement	1974	1973	1972
Premium income	$ 98,389,000	$ 91,550,000	$ 81,131,000
Investment income—net	38,763,000	35,597,000	32,251,000
Other income	(6,499,000)	(2,411,000)	7,684,000
	130,653,000	124,736,000	121,066,000
Benefits paid and accrued	57,724,000	51,253,000	46,399,000
Additions to reserves	27,706,000	32,544,000	39,056,000
Operating expenses	33,632,000	29,767,000	24,357,000
Policyholder dividends	9,556,000	8,990,000	8,813,000
Income and premium taxes	1,597,000	1,813,000	1,850,000
Provision for decline in value of investment and recovery of prior years' taxes	4,175,000		
Net income—participating life account	(4,632,000)	(833,000)	(497,000)
	129,758,000	123,534,000	119,978,000
Net income available to shareholders	$ 895,000	$ 1,202,000	$ 1,088,000
Earnings per share	$ 4.47	$ 6.01	$ 5.44
Dividends per share	$ 3.50	$ 3.20	$ 2.80
Power Corporation's share of earnings	$ 458,000	$ 616,000	$ 558,000
Book value of Power's investment in Imperial—year-end	$ 19,512,000	$ 19,413,000	$ 19,125,000

Condensed Balance Sheet			
Bonds, debentures, mortgages and loans	$434,093,000	$410,319,000	$396,845,000
Stocks	74,037,000	73,531,000	67,263,000
Real estate	50,061,000	48,445,000	40,465,000
Segregated investment funds	69,783,000	59,079,000	52,018,000
Other assets	26,270,000	29,677,000	17,593,000
Total Assets	$654,244,000	$621,051,000	$574,184,000
Policy reserves, deposits and retirement funds	$483,045,000	$463,241,000	$433,533,000
Segregated investment funds reserves	69,783,000	59,079,000	52,018,000
Provision for policyholder dividends	9,627,000	9,120,000	8,815,000
Other liabilities	37,165,000	30,550,000	20,486,000
Capital stock, retained earnings and reserves	54,624,000	59,061,000	59,332,000
Total Liabilities	$654,244,000	$621,051,000	$574,184,000

Investors

Condensed Report of the Directors to Shareholders

Operating Results

The consolidated earnings from operations for the year ended December 31, 1974 amounted to $16,051,000 compared with $16,125,000 for the prior year. After deduction for dividends on the outstanding preferred shares, the consolidated earnings per common and common Class A shares were $1.14. The comparable result for the year 1973 was $1.15.

During the past year a series of major events impacted seriously on the business and economic environment, with particular emphasis on financial markets and related industries. Prominent among these events were a worsening of inflation rates in the industrialized countries, a slowing down in real economic growth, the transfer of wealth to the oil-producing nations and general disappointment in the levels of production of food crops. The political drama of Watergate in the United States and the unseemly confrontation between the Government of Canada and certain provincial governments over revenue-sharing in the mining and petroleum industries were additional negatives.

Interest rates rose sharply throughout much of the year while common stock prices came under severe pressure. Compensation demanded by lenders for the high incidence of inflation was reflected in a marked upward movement in long-term bond interest rates while large credit accommodation required to meet working capital needs pushed short-term rates to very high levels. Corporate profits, in dollar terms, were buoyant, but investors discounted the impact of artificial gain arising out of inventory appreciation and the fact that maximum allowable depreciation charges bear no relationship to the replacement cost of fixed assets.

The consolidated operating results of the Company, when judged against the economic background described, were on the whole satisfactory. Earnings from investment certificate operations in Investors Syndicate and mortgage activities in Investors Syndicate Realty were ahead of last year. Income from the management and distribution of mutual funds declined.

Dividends

During the year, four quarterly dividends of 12½ cents per common and common Class A shares were declared and paid.

Outlook

Many of the serious international and domestic problems so evident during 1974 remained unsolved as 1975 began. There are, however, some hopeful signs of improvement:

— Monetary and fiscal policies have eased in both Canada and the United States in a shift of emphasis from anti-inflation to anti-recession. Short and long-term interest rates have declined as a result.

— Some of the OPEC countries are beginning to show interest in making longer term accommodation to foreign borrowers.

— Despite the severe battering investors have taken in ownership of equities over the past few years, there are signs of returning confidence in the stock market.

— The Federal Government in its November Budget provided incentives to savers by excluding $1,000 interest and/or dividends from taxable income and introduced a registered home ownership plan and improvements to registered retirement savings plans.

These are encouraging signs but the private sector of the economy must explain its vital role in the future economic prosperity of the majority of Canadians if one is to view the future with great optimism. In the past few years the motives and profits of many corporations have been under suspicion and attack. An increasing number of executives of Canada's private sector companies recognize the danger of these attacks and are taking positive steps to explain the goals and objectives of their companies. The success of their efforts is important to all Canadians.

It would be unrealistic to disregard pressing domestic and international problems which confront us but there is also a great danger of becoming so obsessed with problems that opportunities are lost. The Company is confident that it has the people and resources within the Company and its subsidiaries to capitalize on the opportunities that will be available.

Condensed Financial Statements

Condensed Income Statement	1974	1973	1972
Income from certificate operations	$ 9,492,000	$ 7,682,000	$ 6,340,000
Income from management and distribution operations	4,228,000	6,703,000	4,303,000
Income from trust operations	212,000	238,000	236,000
Share of earnings of subsidiary and associated companies	9,174,000	8,737,000	6,329,000
	23,106,000	23,360,000	17,208,000
Interest on bank loan	1,052,000	868,000	195,000
Income taxes	6,003,000	6,367,000	4,604,000
	7,055,000	7,235,000	4,799,000
Net income before extraordinary items	$ 16,051,000	$ 16,125,000	$ 12,409,000
Earnings per common and common Class A share	$ 1.14	$ 1.15	$ 0.85
Dividends per common and common Class A share	$ 0.50	$ 0.45	$ 0.40
Power Corporation's share of earnings	$ 4,884,000	$ 4,586,000	$ 2,905,000
Book value of Power's investment in Investors—year-end	$ 59,135,000	$ 55,464,000	$ 42,795,000

Condensed Balance Sheet			
Cash and marketable securities	$114,466,000	$132,924,000	$144,730,000
Mortgages and loans	352,963,000	329,511,000	290,818,000
Investment in subsidiary and associated companies	111,601,000	108,139,000	99,269,000
Other assets	12,883,000	13,634,000	14,377,000
Total Assets	$591,913,000	$584,208,000	$549,194,000
Certificate liabilities	$414,384,000	$414,757,000	$389,783,000
Other liabilities	33,511,000	31,184,000	29,744,000
Preferred equity	32,449,000	39,999,000	40,000,000
Common and common Class A shareholders' equity	111,569,000	98,268,000	89,667,000
Total Liabilities	$591,913,000	$584,208,000	$549,194,000

The Great-West Life Assurance Company

Condensed Report of the Directors to Shareholders

The year 1974 was marked by a continuing buoyant market for the Company's services, a substantial increase in net investment income and favorable claims experience. Earnings improved for both policyholders and shareholders.

Sales and Business in Force

Sales of life insurance and annuities reached a record high of $3,521,255,000, up 26% over 1973:

	Thousands	
	1974	1973
Individual Life Policies	$ 811,558	$ 659,551
Group Life	2,096,214	1,744,514
Annuities	613,483	400,526
	$3,521,255	$2,804,591

Health insurance sales of $27,956,000 in terms of gross annual premiums were up 34% and also attained a record high level.

Business in force at the end of 1974, excluding health insurance, increased by 19% to $22,670,973,000 consisting of $18,603,004,000 of life insurance and $4,067,969,000 of annuities. Health insurance in force in terms of gross annual premiums totalled $143,367,000, an increase of $24,717,000 over the previous year.

Earnings

Net income before policyholder dividends was $41,978,000. Policyholder dividends paid or credited amounted to $23,743,000 and the net income carried forward to the participating policyholders' surplus account was $2,163,000. Net income attributable to shareholders was $16,072,000 representing $8.03 per share compared with $6.78 in 1973.

Premium income continued to record strong gains and totalled $424,780,000, up 13.2%. The group lines of business were particularly buoyant. Net investment income reflected the high interest rates available on new investments during the year and increased 17.8% to $140,071,000. The net rate of return on investments was 7.24% compared with 6.75% in 1973.

Realized and unrealized capital losses on segregated investment funds reflect market conditions in 1974. Such capital gains and losses are credited or charged to these funds and do not affect net income of the Company.

Mortality experience on individual and group insurance policies improved over the previous year and was at a favorable level relative to long-term expectations. The ratio of claims to premiums on health insurance was moderately lower when compared with 1973.

Benefits and dividends paid to policyholders and their beneficiaries increased 11.6% to $305,674,000 and the increase in policy reserves to provide for future benefits was $142,675,000.

While operating expenses were up sharply reflecting both increased business activity and the impact of inflation, the Company's expense ratio increased only slightly.

Assets and Liabilities

Assets increased $172,721,000 during 1974 to $2,106,428,000. The Company's long-term policy of making provision for fluctuations in investment experience was continued by an asset write-down of $10,770,000.

Liabilities, consisting primarily of obligations to policyholders, amounted to $1,947,214,000. Capital, contingency reserve and surplus increased $7,060,000 to $159,214,000, which at 8.2% of liabilities provides a reasonable margin for the protection of policyholders.

Outlook

While the economic outlook is one of uncertainty and concern, there is every indication of a continuing, strong demand for the Company's products and services in the year ahead.

Condensed Financial Statements

Condensed Income Statement	1974	1973	1972
Premium income	**$ 424,780,000**	$ 375,175,000	$ 322,210,000
Investment income—net	**140,071,000**	118,936,000	103,112,000
Other income	**(21,803,000)**	(11,431,000)	7,875,000
	543,048,000	482,680,000	433,197,000
Benefits paid and accrued	**281,931,000**	253,299,000	218,094,000
Additions to reserves	**142,675,000**	127,705,000	122,302,000
Operating expenses	**63,135,000**	54,363,000	48,603,000
Policyholder dividends	**23,743,000**	20,619,000	20,380,000
Income and premium taxes	**13,329,000**	10,831,000	11,165,000
Net income—participating policyholders	**2,163,000**	2,296,000	925,000
	526,976,000	469,113,000	421,469,000
Net income available to shareholders	**$ 16,072,000**	$ 13,567,000	$ 11,728,000
Earnings per share	**$ 8.03**	$ 6.78	$ 5.86
Dividends per share	**$ 2.50**	$ 2.00	$ 1.60
Investors' share of earnings	**$ 7,930,000**	$ 6,610,000	$ 5,745,000
Book value of Investors' investment in Great-West—year-end	**$ 83,472,000**	$ 80,346,000	$ 75,221,000

Condensed Balance Sheet	1974	1973	1972
Bonds, debentures, mortgages and loans	**$1,574,906,000**	$1,466,698,000	$1,362,193,000
Stocks	**155,147,000**	132,060,000	117,144,000
Real estate	**152,659,000**	150,218,000	148,850,000
Segregated investment funds	**136,314,000**	120,725,000	98,303,000
Other assets	**87,402,000**	64,006,000	51,900,000
Total Assets	**$2,106,428,000**	$1,933,707,000	$1,778,390,000
Policy reserves and funds	**$1,689,505,000**	$1,552,578,000	$1,441,285,000
Segregated investment funds reserves	**136,314,000**	120,725,000	98,303,000
Provision for policyholder dividends	**23,700,000**	21,229,000	19,775,000
Other liabilities	**97,695,000**	87,021,000	76,209,000
Capital stock, reserve and surplus	**159,214,000**	152,154,000	142,818,000
Total Liabilities	**$2,106,428,000**	$1,933,707,000	$1,778,390,000

Condensed Report of the Directors to Shareholders

Net operating income for the year was $2,464,000, down from $4,200,000 in 1973. Net operating income per share was $0.96 ($1.64 in 1973) while net income per share was $1.06 ($1.71 in 1973).

In 1974, the Company was adversely affected by several external forces beyond its immediate control. The most serious of these was the regrettably high rate of inflation with its accompaniment of record high short-term interest rates and substantial increases in all areas of operating costs. These circumstances, together with minimal new equity financing, reduced stock market activity and lower than anticipated levels of debt financing, combined to reduce profit ratios in the various areas of operation.

Revenue and Expense

While fee and commission income (ex real estate) increased by 10% in the year—a growth which might be considered satisfactory in more normal circumstances—the expense involved in earning it rose by 14%. Salaries and benefits, a major element in overall costs, increased by some 13%. The earnings of individual employees rose by a greater amount than this, for the Company was able to achieve higher productivity and accordingly to operate efficiently with some reduction in total staff.

Real estate commissions, both earned and paid out, increased by 32%—a satisfactory expansion of this aspect of the operations. It must, however, be borne in mind that real estate selling is a highly competitive service with narrow profit margins, and volume growth in this area has a limited impact on net profit. This is particularly true during an expansionary phase such as the Company chose to pursue last year.

Guaranteed Trust Accounts

The Company entered 1974 with the expectation (then broadly shared) that interest rates would trend downward and settle at lower than year-end levels by early in the third quarter. This expectation contrasted rather sharply with the facts as they emerged. While rates were level in the first quarter, they rose sharply in the second and third quarters. An example of this interest curve may be found in the non-chequing savings account rate; this was 5% on January 1, 1973, 6¾% on January 1, 1974 and 9¼% on August 1, 1974—representing an 85% increase from January 1, 1973 and a 37% increase in the first seven months of 1974.

The Company holds substantial long-term assets commanding lower yields than those then currently available. By reason of the material rise in interest rates, the cost of monies to carry these assets markedly exceeded the income generated by them, and in consequence impinged upon the net income earned from the later-acquired portfolio of 5-year mortgages financed by 5-year certificates.

Balance Sheet

In 1974 total assets increased from $627,441,000 to $696,286,000.

One will note an increase in cash and deposit receipts. This arises from accelerated activity by clients in short-term commitments as well as the Company's increased use of higher yielding bank term deposits in place of short-term government bonds to meet statutory liquidity requirements.

The increase in mortgages ($62,834,000) reflects a continuation of a policy to concentrate growth in 5-year residential mortgages with funds provided through sale of 5-year investment certificates.

At year-end, shareholders' equity was $15.27 compared with $15.01 a year before.

Dividends

On January 30th last the Directors declared a dividend of 15 cents per share, payable February 28. This reduction from the 20 cent quarterly rate maintained in 1974 was considered appropriate in view of the current policy of assuring the retention of a suitable portion of earnings in order to expand the base for future growth.

Condensed Financial Statements

Condensed Income Statement	1974	1973	1972
Net income from Guaranteed Accounts	$ 1,654,000	$ 5,836,000	$ 6,749,000
Fees and commissions	22,413,000	20,380,000	19,041,000
Real estate commissions	9,924,000	7,518,000	4,948,000
Interest, dividends and other income	5,323,000	3,817,000	3,332,000
	39,314,000	37,551,000	34,070,000
Operating expenses	35,084,000	29,832,000	25,636,000
Income taxes	1,766,000	3,519,000	3,860,000
	36,850,000	33,351,000	29,496,000
Net operating income	$ 2,464,000	$ 4,200,000	$ 4,574,000
Earnings per share	$ 0.96	$ 1.64	$ 1.82
Dividends declared per share	$ 0.80	$ 0.80	$ 0.80
Investors' share of earnings	$ 1,244,000	$ 2,127,000	$ 584,000
Book value of Investors' investment in Montreal Trust—year-end	$ 28,129,000	$ 27,793,000	$ 24,048,000

Condensed Balance Sheet	1974	1973	1972
Assets Held for Guaranteed Trust Accounts			
Mortgages	$438,286,000	$375,452,000	$299,360,000
Securities, cash and other assets	207,165,000	201,569,000	245,699,000
	645,451,000	577,021,000	545,059,000
Company Assets			
Securities, cash and other assets	37,341,000	37,253,000	34,828,000
Office premises and equipment	13,494,000	13,167,000	13,335,000
Total Assets	$696,286,000	$627,441,000	$593,222,000
Guaranteed Trust Accounts			
Deposits	$158,639,000	$138,795,000	$119,093,000
Investment certificates	486,812,000	438,226,000	425,966,000
	645,451,000	577,021,000	545,059,000
Company Liabilities			
Other liabilities	11,494,000	11,745,000	12,320,000
Shareholders' equity	39,341,000	38,675,000	35,843,000
Total Liabilities	$696,286,000	$627,441,000	$593,222,000

Consolidated-Bathurst Limited

Condensed Report of the Directors to Shareholders

Operating Results

The Company has just completed a year of performance without parallel in its history, with revenues approaching $700 million and earnings substantially improved over those of 1973. By year-end, however, some of the concerns mentioned in last year's report were beginning to be reflected in weakened demand for a number of the Company's products.

The earnings improvement during the year was attributable primarily to high operating ratios and to sales price increases, which enabled the Company to keep pace with higher costs for energy, labour, transportation and materials. Earnings before extraordinary items in 1974 amounted to $47.7 million and were equivalent to $7.10 per common share. On a comparable basis, earnings in 1973 were $19.9 million or $2.74 per common share. If adjusted for the major effects of inflation, 1974 earnings before extraordinary items would be approximately $6.00 per common share and the Company's 1974 return on net assets would decline from 9% to 3%.

Net sales in 1974 were $689.0 million, compared with $497.7 million in 1973. Sales volumes improved in newsprint, pulp, glass products and industrial bags. Newsprint shipments amounted to 1,005,600 tons in 1974 compared with 964,460 tons in 1973. With the exception of lumber, all products experienced increases in sales revenue and earnings. The Company's Container Division had a 12.8% decline in volume of shipments, compared with 1973, as a result of strikes during the summer of 1974.

Earnings after extraordinary items in 1974 were equivalent to $9.38 per common share compared with $2.60 per common share in 1973. The extraordinary credit to earnings in 1974, amounting to $14.6 million, net of income taxes, reflects mainly the gain on expropriation of Anticosti Island by the Province of Quebec.

Other events of 1974 included the Company's public offer for the outstanding common and preferred shares of Dominion Glass that it did not already own and the bidding between Consolidated-Bathurst and Abitibi Paper Company for control of The Price Company Limited.

Cash flow from operations in 1974 was $91.5 million compared with $49.6 million in 1973. The increase in cash flow, the sale of Price Company common shares and the expropriation of Anticosti Island resulted in an overall improvement in working capital of $52.0 million.

Balance Sheet

Because of the prohibitive cost of expansion and the related absence of large new additions to capacity, revenue prospects of the pulp and paper industry will, in the longer term, continue to be promising. Consolidated-Bathurst itself enters 1975 with a strong financial position. At year-end, working capital per common share amounted to $18.39 compared with $12.87 in 1973 and book value per common share amounted to $29.66 compared with $19.52 at the end of 1973. Furthermore, on February 26, 1975, a wholly-owned subsidiary entered into an underwriting agreement for the sale of $35.0 million 11% First Mortgage Sinking Fund Bonds, Series A to be issued at par with net proceeds estimated to be $33.9 million.

Outlook

In the near term, with weaker markets for some product lines, it will be difficult for the pulp and paper and related packaging industries to maintain the high production-to-capacity ratios that prevailed throughout most of 1974. Such market uncertainties result from continuing inflation and slack economies in the United States and Europe. In the months ahead, the Company will clearly be under pressure to absorb cost increases in many areas.

Condensed Financial Statements

Condensed Income Statement	1974	1973	1972
Net sales	**$689,009,000**	$497,683,000	$348,055,000
Other income	**4,410,000**	2,551,000	2,359,000
	693,419,000	500,234,000	350,414,000
Cost of goods sold, including depreciation	**551,780,000**	420,027,000	303,812,000
Selling and administrative expenses	**40,294,000**	31,011,000	23,728,000
Interest	**18,445,000**	14,518,000	10,573,000
Loss from discontinued operations			1,131,000
Income taxes	**34,463,000**	14,220,000	4,674,000
Minority interest	**725,000**	588,000	315,000
	645,707,000	480,364,000	344,233,000
Net income before extraordinary items	**$ 47,712,000**	$ 19,870,000	$ 6,181,000
Earnings per common share	**$ 7.10**	$ 2.74	$ 0.55
Dividends per common share	**$ 2.25**		
Power Corporation's share of earnings	**$ 19,470,000**	$ 6,925,000	$ 1,235,000
Book value of Power's investment in Consolidated-Bathurst—year-end	**$120,728,000**	$ 99,962,000	$ 80,637,000

Condensed Balance Sheet			
Current assets	**$287,289,000**	$203,745,000	$151,775,000
Investments and other assets	**32,407,000**	18,126,000	23,627,000
Property and plant	**316,936,000**	313,116,000	255,002,000
Total Assets	**$636,632,000**	$534,987,000	$430,404,000
Current liabilities	**$154,244,000**	$122,679,000	$ 74,472,000
Long-term debt	**134,833,000**	144,612,000	132,854,000
Other liabilities and provisions	**95,406,000**	77,771,000	61,593,000
Minority interest and preferred equity	**37,580,000**	66,905,000	53,623,000
Common shareholders' equity	**214,569,000**	123,020,000	107,862,000
Total Liabilities	**$636,632,000**	$534,987,000	$430,404,000

Gesca Ltée

Power Corporation's investment in the field of newspapers is represented by an income debenture of Gesca Ltée, which company owns all the shares of La Presse Ltée, Les Journaux Trans-Canada Ltée and Montréal-Matin Inc.. This debenture effectively provides that all the earnings and any realized changes in the incremental value of the equity of Gesca Ltée accrue to the debenture holder.

The consolidated earnings of Gesca were $3.4 million for 1974 compared with $2.8 million in respect of 1973.

The daily circulation of all the newspapers in the Gesca group now amounts to an average of over 400,000 copies and advertising linage increased by 10% to 88,751,000 lines in 1974 compared with 80,701,000 lines in 1973.

The operating results, as well as the increases in circulation and advertising revenue, are most satisfactory and while the rate of growth experienced in 1974 may not be sustained, the Company looks forward to continuing improvements in 1975.

S.M.A. (Société de Mathématiques Appliquées) Inc.

Power's interest in S.M.A. (Société de Mathématiques Appliquées) Inc., a computer service bureau and software organization, was acquired in June 1974 and is represented by a 55% share interest and by a debenture and advances. This company, like many others in the data service industry, sustained a loss for the year. Power has absorbed approximately $1.6 million of the loss, being the full amount incurred from the date of acquisition of control. A substantial portion of the loss resulted from the installation and start-up of a leased IBM Model 370/155 computer, which processes, amongst other systems, a sophisticated software application for the motor freight industry known as COBIS. This system is now being used by one of Power's subsidiary companies, Kingsway Transports Limited, and is being successfully marketed to other major companies in the motor freight industry.

Since the acquisition of S.M.A. in 1974, its objectives have been redefined and, as well, considerable improvement has been made in its mode of operation. It is likely that S.M.A. will only break even or make a marginal contribution in the latter part of 1975.

Other Investments

Power Corporation and its consolidated subsidiaries have miscellaneous investments not referred to in detail in this report, having a book value of $19,183,000. These investments include a 10.4% interest in Argus Corporation Limited as well as mortgage bonds, debentures and other miscellaneous investments as detailed in Note 4 to Power's financial statements.

Power Corporation of Canada, Limited

Board of Directors

**WILBROD BHERER, Q.C.	Chairman, Canadian Vickers Limited
**ALFREDO F. CAMPO	Chairman, Petrofina Canada Ltd.
*PETER D. CURRY	President and Chief Operating Officer of the Company
*LOUIS R. DESMARAIS, C.A.	Chairman and Chief Executive Officer, Canada Steamship Lines, Limited
*PAUL DESMARAIS	Chairman and Chief Executive Officer of the Company
PIERRE GENEST, Q.C.	Partner, Cassels, Brock
JEAN-PAUL GIGNAC	President, Sidbec-Dosco Limited
J. W. MCGIFFIN	Deputy Chairman of the Company
*W. EARLE MCLAUGHLIN	Chairman and President, The Royal Bank of Canada
*A. D. NESBITT	President and Chief Executive Officer, Nesbitt, Thomson & Company, Limited
PAUL BRITTON PAINE, Q.C.	President and Chief Executive Officer, Montreal Trust Company
*JEAN PARISIEN, C.A.	Senior Deputy Chairman of the Company
THE HON. JEAN-LUC PEPIN, P.C.	President, Interimco Ltd.
CLAUDE PRATTE, Q.C.	Advocate
**THE HON. JOHN P. ROBARTS, P.C., C.C., Q.C.	Partner, Stikeman, Elliott, Robarts & Bowman
*ROBERT C. SCRIVENER	Chairman and Chief Executive Officer, Bell Canada
*P. N. THOMSON	Deputy Chairman of the Company
*W. I. M. TURNER, JR.	President and Chief Executive Officer, Consolidated-Bathurst Limited

Officers

PAUL DESMARAIS	Chairman and Chief Executive Officer
JEAN PARISIEN, C.A.	Senior Deputy Chairman
P. N. THOMSON	Deputy Chairman
J. W. MCGIFFIN	Deputy Chairman
PETER D. CURRY	President and Chief Operating Officer
A. F. KNOWLES, C.A.	Vice President Finance, and Treasurer
DANIEL JOHNSON	Secretary
ANDRÉ GERVAIS, C.G.A.	Assistant Treasurer

*Members of the Executive Committee
**Members of the Audit Committee

Power Corporation of Canada, Limited

Head Office	759 Victoria Square, Montreal, Quebec, H2Y 2K4
Transfer Agents and Registrars	Montreal Trust Company, Montreal, Toronto, Calgary, Vancouver
Stock Listings	
Common Shares	Montreal, Toronto and Vancouver Stock Exchanges
Participating Preferred Shares	Montreal Stock Exchange
Convertible Preferred Shares	Montreal and Toronto Stock Exchanges
First Preferred Shares	Montreal and Toronto Stock Exchanges

Si vous préférez recevoir le rapport de Power Corporation en français, veuillez vous adresser au Secrétaire, Power Corporation of Canada, Limited, 759 Square Victoria, Montréal, Québec, H2Y 2K4

Principal Subsidiary and Affiliated Companies

Canada Steamship Lines, Limited
759 Victoria Square
Montreal, Quebec H2Y 2K3

The Imperial Life Assurance Company of Canada
95 St. Clair Avenue West
Toronto, Ontario M4V 1N7

The Great-West Life Assurance Company
60 Osborne Street North
Winnipeg, Manitoba R3C 3A5

Consolidated-Bathurst Limited
800 Dorchester Blvd. West
Montreal, Quebec H3B 1Y9

Laurentide Financial Corporation Ltd.
1177 West Hastings Street
Vancouver, British Columbia V6B 4B4

The Investors Group
280 Broadway
Winnipeg, Manitoba R3C 3B6

Montreal Trust Company
1 Place Ville Marie
Montreal, Quebec H3B 4A8

A copy of the Annual Report of these subsidiary and affiliated companies may be obtained by writing directly to the Secretary of the companies.

POWER CORPORATION OF CANADA, LIMITED

Interim Report
June 30th, 1974

Rapport intérimaire
au 30 juin 1974

POWER CORPORATION OF CANADA, LIMITED

Interim Report
June 30th, 1974

Rapport intérimaire
au 30 juin 1974

STATEMENT OF CONSOLIDATED EARNINGS (UNAUDITED)

	THOUSANDS FOR THE SIX MONTHS ENDED JUNE 30			
		1974		1973
Gross revenue from operations		$93,604		$87,135
Earnings from operations		$14,468		$10,090
Share of earnings of unconsolidated subsidiaries and affiliated companies		13,535		7,097
Income from investments		2,392		1,755
		30,395		18,942
Interest on long-term debt	$3,193		$2,990	
Provision for depreciation	4,940	8,133	5,325	8,315
		22,262		10,627
Provision for income taxes		3,231		796
		19,031		9,831
Preferred dividends of consolidated subsidiaries		180		227
Consolidated earnings		18,851		9,604
Non-participating preferred dividends		1,870		1,894
Consolidated net earnings available for 6% participating preferred and common shareholders		$16,981		$ 7,710
Earnings per 6% participating preferred and common share				
Primary		$ 1.43		$ 0.66
Diluted		$ 1.14		$ 0.56

STATEMENT OF CONSOLIDATED SOURCE AND USE OF FUNDS (UNAUDITED)

	1974	1973
Source of Funds		
From operations		
Consolidated net earnings	$16,981	$7,710
Depreciation	4,940	5,325
Deferred income taxes	(1,238)	348
Earnings not received in cash	(8,338)	(5,107)
	12,345	8,276
Proceeds from disposal of fixed assets	1,691	2,885
Proceeds from disposal of securities	561	34,169
Proceeds from issue of common shares	—	33
Proceeds from issue of 6% preferred shares	—	2,198
	14,597	47,561
Use of Funds		
Additions to fixed assets	4,138	6,062
Reduction of long-term debt	2,076	2,040
Dividends—common	1,834	1,021
—participating preferred	243	195
Purchase of investments	6,821	17,655
Acquisition of $4^3/_4$% preferred shares for cancellation	762	530
Acquisition of preferred shares of consolidated subsidiaries	2,794	—
Increase (decrease) in advances to trustees of share purchase plans	819	(24)
Miscellaneous	562	126
	20,049	27,605
(Decrease) Increase in Working Capital	$(5,452)	$19,956

ÉTAT DU BÉNÉFICE CONSOLIDÉ (NON VÉRIFIÉ)

EN MILLIERS POUR LE SEMESTRE TERMINÉ LE 30 JUIN

		1974		1973
Revenu brut d'exploitation		$93,604		$87,135
Bénéfice d'exploitation		$14,468		$10,090
Part du bénéfice des filiales non consolidées et des compagnies affiliées		13,535		7,097
Revenus de placements		2,392		1,755
		30,395		18,942
Intérêts sur la dette à long terme	$3,193		$2,990	
Provision pour amortissement	4,940	8,133	5,325	8,315
		22,262		10,627
Provision pour impôts sur le revenu		3,231		796
		19,031		9,831
Dividendes sur les actions privilégiées des filiales consolidées		180		227
Bénéfice consolidé		18,851		9,604
Dividendes sur les actions privilégiées non participantes		1,870		1,894
Bénéfice net consolidé attribuable aux détenteurs des actions privilégiées participantes, 6%, et des actions ordinaires		$16,981		$ 7,710
Bénéfice par action privilégiée participante, 6%, et par action ordinaire				
Primaire		$ 1.43		$ 0.66
Dilué		$ 1.14		$ 0.56

ÉTAT DE LA PROVENANCE ET DE L'UTILISATION CONSOLIDÉES DES FONDS (NON VÉRIFIÉ)

	1974	1973
Provenance des fonds		
Exploitation		
Bénéfice net consolidé	$16,981	$7,710
Amortissement	4,940	5,325
Impôts sur le revenu reportés	(1,238)	348
Bénéfice non retiré en espèces	(8,338)	(5,107)
	12,345	8,276
Produit de la vente d'immobilisations	1,691	2,885
Produit de la vente de titres	561	34,169
Produit de l'émission d'actions ordinaires	—	33
Produit de l'émission d'actions privilégiées, 6%	—	2,198
	14,597	47,561
Utilisation des fonds		
Additions aux immobilisations	4,138	6,062
Réduction de la dette à long terme	2,076	2,040
Dividendes—actions ordinaires	1,834	1,021
—actions privilégiées participantes	243	195
Achat de placements	6,821	17,655
Acquisition d'actions privilégiées, 4 3/4%, pour annulation	762	530
Acquisition d'actions privilégiées des filiales consolidées	2,794	—
Augmentation (diminution) des avances aux fiduciaires des régimes d'achat d'actions	819	(24)
Autres	562	126
	20,049	27,605
(Diminution) Augmentation du fonds de roulement	$(5,452)	$19,956

POWER CORPORATION OF CANADA, LIMITED

To the Shareholders:

The consolidated earnings for the six months ended 30th June 1974 amounted to $18,851,000, compared with $9,604,000 for the six months ended 30th June 1973. These consolidated earnings, after providing for dividends on non-participating preferred shares, are equivalent to $1.43 as against 66 cents per participating preferred and common share for the prior year. After allowing for the conversion of the 5% convertible preferred shares, the diluted earnings per participating preferred and common share are $1.14 in 1974 and 56 cents in 1973.

Gross revenue from operations was $93,604,000 in 1974, compared with $87,135,000 in 1973.

Earnings from operations are $14,468,000, being an increase of $4,378,000 or 43.4 per cent over the first six months of the last year. This satisfactory increase in earnings from operations resulted from a general improvement in the volume of business in each of the operating divisions of Canada Steamship Lines, Limited; in addition, improved utilization of facilities has assisted in offsetting the continuing escalation of operating costs.

The share of earnings of our unconsolidated subsidiaries and affiliated companies was $13,535,000, an increase of $6,438,000 or 90.7 per cent over the first six months of last year, due primarily to the increased earnings of Consolidated-Bathurst Limited. High interest rates have tended to slow the rate of growth in certain of the financial service companies, while the results of the newspaper operations continued to be satisfactory.

The Statement of Consolidated Source and Use of Funds shows a decrease in working capital of $5,452,000. Investments acquired during the course of the period include the acquisition of a small number of Consolidated-Bathurst Limited common shares, as well as an interest in S.M.A. (Société de Mathématiques Appliquées) Inc., a computer service organization.

For the three months ended 30th June 1974, the consolidated earnings were $11,863,000, compared with $5,485,000 for the three months ended 30th June 1973. These consolidated earnings, after providing for dividends on non-participating preferred shares, are equivalent to 92 cents as against 39 cents per participating preferred and common share for the prior year. After allowing for the conversion of the 5% convertible preferred shares, the earnings per participating preferred and common share are 72 cents in 1974 and 32 cents in 1973. Gross revenue from operations was $68,233,000, compared with $66,070,000 the previous year. Earnings from operations are $10,871,000, compared with $7,359,000 for the same period last year, while the share of earnings of our unconsolidated subsidiaries and affiliated companies was $7,934,000, compared with $4,293,000.

We anticipate the operating results for the second half of the year will continue at a satisfactory level.

The Board of Directors today declared quarterly dividends on the first and second cumulative preferred shares. Dividends of 10 cents on the 6% participating preferred shares and on the common shares were also declared in respect of the quarter ending 30th September 1974, payable 30th September to shareholders of record at the close of business 9th September.

On behalf of the Board

Paul Desmarais
Chairman and Chief
Executive Officer

Montreal,
August 13, 1974.

Aux Actionnaires:

Le bénéfice consolidé pour le semestre terminé le 30 juin 1974 s'est élevé à $18,851,000, comparativement à $9,604,000 pour le semestre terminé le 30 juin 1973. Après avoir pourvu aux dividendes sur les actions privilégiées non participantes, le bénéfice consolidé s'établit à $1.43 par action privilégiée participante et par action ordinaire, en comparaison de 66 cents pour le premier semestre de 1973. Si l'on tient compte de la conversion des actions privilégiées, 5%, le bénéfice dilué par action privilégiée participante et par action ordinaire s'élève à $1.14 en 1974 et à 56 cents en 1973.

Le revenu brut d'exploitation a été de $93,604,000 en 1974, comparativement à $87,135,000 en 1973.

Le bénéfice d'exploitation s'est élevé à $14,468,000, ce qui représente une augmentation de $4,378,000 ou 43.4 pour cent sur celui des six premiers mois de 1973. Cette augmentation satisfaisante du bénéfice d'exploitation a résulté d'une amélioration générale du volume d'affaires dans chacune des divisions de Canada Steamship Lines, Limited; de plus, une meilleure utilisation des actifs a contrebalancé l'augmentation constante des frais d'exploitation.

La part du bénéfice des filiales non consolidées et des compagnies affiliées a été de $13,535,000, une augmentation de $6,438,000 ou 90.7 pour cent sur celle des six premiers mois de 1973 résultant principalement de l'augmentation du bénéfice de Consolidated-Bathurst Limitée. Les taux d'intérêt élevés ont eu tendance à ralentir le taux d'accroissement de certaines de nos filiales dans le secteur financier, alors que les résultats d'exploitation des journaux ont continué à être satisfaisants.

L'état de la provenance et de l'utilisation consolidées des fonds montre une diminution du fonds de roulement de $5,452,000. Les achats de placements au cours du semestre incluent un petit nombre d'actions ordinaires de Consolidated-Bathurst Limitée, de même qu'un intérêt dans S.M.A. (Société de Mathématiques Appliquées) Inc., une société d'informatique.

Pour le trimestre terminé le 30 juin 1974, le bénéfice consolidé s'est élevé à $11,863,000, comparativement à $5,485,000 pour le trimestre terminé le 30 juin 1973. Après avoir pourvu aux dividendes sur les actions privilégiées non participantes, le bénéfice net consolidé s'établit à 92 cents par action privilégiée participante et par action ordinaire, en comparaison de 39 cents pour le trimestre correspondant de 1973. Si l'on tient compte de la conversion des actions privilégiées, 5%, le bénéfice dilué par action privilégiée participante et par action ordinaire s'élève à 72 cents en 1974 et à 32 cents en 1973. Le revenu brut d'exploitation s'est élevé à $68,233,000, comparativement à $66,070,000 en 1973. Le bénéfice d'exploitation s'est élevé à $10,871,000, comparativement à $7,359,000 pour la période correspondante de l'année dernière, alors que la part du bénéfice des filiales non consolidées et des compagnies affiliées a été de $7,934,000, comparativement à $4,293,000.

Nous sommes confiants que les résultats d'exploitation du deuxième semestre seront satisfaisants.

Le conseil d'administration a déclaré aujourd'hui le dividende trimestriel sur les actions privilégiées de premier rang et de second rang. Un dividende de 10 cents par action privilégiée participante, 6%, et par action ordinaire a été déclaré pour le trimestre se terminant le 30 septembre 1974 et sera payé le 30 septembre aux actionnaires enregistrés à la fermeture des affaires le 9 septembre.

Pour le conseil d'administration

Paul Desmarais
Président du conseil et
chef de la direction

Montréal,
le 13 août 1974.